NORTH CANADIAN OILS LIMITED

1977 ANNUAL REPORT

NORTH CANADIAN OILS LIMITED

COMPANY PROFILE

Founded in 1947, North Canadian Oils is an Alberta based company whose principal business is the exploration for oil, natural gas and other minerals and the development of these resources. The Company owns and operates extensive gas producing properties in Alberta and Saskatchewan. Other assets of importance are prospective exploration lands in Canada, the United States and off shore India, a 136 mile gas transmission line and established reserves of thermal coal.

Aside from its holdings related to natural resources, North Canadian has material investments in the forest products industry, commercial real estate and a large Canadian food service company.

The shares of the Company have been listed on the Toronto and American Stock Exchanges since 1952.

ANNUAL MEETING

The 1978 Annual Meeting of shareholders will be held Friday, May 19, 1978 at 9 a.m., Calgary Inn, Calgary, Alberta, Canada. A formal notice of this meeting together with proxy statement and form of proxy, have been mailed with this report. **All shareholders who are unable to attend the meeting are requested to sign and return their proxies without delay.**

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the six months ended June 30, 1977
(with comparative figures for 1976)

	1977	1976
Source of funds		
Net income before extraordinary items . .	$2,979,000	$2,165,000
Add depreciation, depletion, amortization and deferred income taxes	1,060,000	660,000
Deduct gain on disposal of fixed assets	(2,000)	(23,000)
	4,037,000	2,802,000
Gain on sale of securities	—	530,000
Proceeds on sale of investments	—	5,000,000
Proceeds on issue of common shares ...	27,000	59,000
Proceeds on sale of fixed assets	12,000	30,000
	4,076,000	8,421,000
Use of funds		
Expenditures for property, plant and equipment	2,769,000	918,000
Reduction of long-term debt	—	2,715,000
Redemption of preferred shares	29,000	66,000
Preferred share dividend	43,000	45,000
Increase in other assets	19,000	74,000
	2,860,000	3,818,000
Increase in working capital	1,216,000	4,603,000
Working capital at January 1	4,927,000	581,000
Working capital at June 30	$6,143,000	$5,184,000

The above financial information is unaudited.

FIRST CLASS

North Canadian Oils Limited
640 Seventh Avenue S.W.
Calgary, Alberta T2P 0Y5

G.M.L.

Business Editor
Globe and Mail Report on Business
444 Front Street West
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Lithographed in Canada

NORTH CANADIAN

Oils Limited ☐ A Natural Resource Company

INTERIM REPORT

for the six months ended
JUNE 30, 1977

TO THE SHAREHOLDERS:

OPERATING & FINANCIAL RESULTS

As a result of higher gas production coupled with a 41% increase in the weighted average wellhead price, the Company's revenue and earnings for the first half of 1977 were higher than for any six months period in North Canadian's history. Total income was $8,282,000 compared to $5,784,000 in 1976. Of this, the Company retained a cash flow of $4,039,000 or 49¢ of every dollar received. Net income was $2,979,000, up 38% from the comparable figure of $2,165,000 reported for the first half of last year.

Drilling activity in the second quarter was principally centered in Saskatchewan where 30 development wells have been completed and are now being connected for the start up of production in September. Under Saskatchewan's new pricing regulations gas produced from these wells is defined as "new gas" and will demand a premium price over existing production. Exploratory drilling by the Company in the second quarter, which is seasonally a period of restricted activity, was confined to two wells drilled in Alberta, one of which was successfully completed. This brings to 27 the total number of exploratory ventures in Alberta, in which North Canadian has participated in the year to date. Of these, 15 have been completed as new or potential gas discoveries.

In the Gulf of Mannar, off the south east coast of India, the Drillship Glomar III is currently drilling below 10,000 feet after encountering some earlier delays due to inclement weather and mechanical problems. Evaluation of the test, scheduled for a possible 13,000 foot depth, should be completed by mid or late August. North Canadian has a 21% interest in the India concession which covers an area of approximately 8.5 million acres.

SUBSEQUENT EVENTS

Following a meeting of its Board of Directors on July 27, North Canadian has taken a significant step to broaden its corporate base. The Company has accepted an offer by Hambros Limited of England to sell it 3,300,000 common shares of Hambro Canada Limited, representing 48% of the shares outstanding. The agreed purchase price is approximately $6.50 per share (Canadian funds). Formal closing of the transaction is scheduled for August 31. The purchase agreement stipulates that North Canadian Oils shall, within 12 months, make an offer of no less than $7.00 in cash or securities of equivalent value for the shares still outstanding.

Hambro Canada, a Toronto based holding corporation with liquid assets in excess of $17 million, owns 58% of Foodex Systems Limited, a highly successful Canadian fast food operation and 100% of Peel-Elder Development Ltd., a major Ontario real estate firm with varied property holdings in Toronto, Cambridge (Ontario) and Winnipeg. Through Foodex, Hambro also has a controlling interest in Gibraltar Pari-Mutual Inc., an American company which controls Bowie and Freehold race tracks.

Foodex owns and operates the popular Ponderosa steak house chain which currently has over 90 units across Canada. It has also recently introduced a new chain of outlets under the name Frank Vetere's Pizzeria and Tavern, seven of which are now in operation. Since starting up in late 1971, annual sales volume of the Company's food outlets has grown steadily and is expected to exceed $50 million in 1977.

Peel-Elder is currently in the process of selling its properties and it is anticipated by the management of Hambro Canada that proceeds from the sale will provide the Company with substantial cash over and above the related liabilities.

While North Canadian Oils will have major representation on the Boards of Directors of Hambro Canada and its subsidiary companies, there are no major changes anticipated in their present management. North Canadian is pleased that Dr. K. A. Roberts, Chief Executive Officer of Hambro, Foodex and Gibraltar will remain in his present capacity along with the very capable management team which has been developed over the past several years.

The Hambro acquisition does not represent a departure by North Canadian from its principal business as an oil and gas exploration company in which it has been most successful. It is intended to provide a new corporate dimension to North Canadian Oils which will enhance the Company's continued growth and contribute to its future earnings.

Robert F. Ruben

ROBERT F. RUBEN
President

The Common Shares of North Canadian Oils are listed for trading on the American and Toronto Stock Exchanges.

STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED June 30, 1977
(with comparative figures for 1976)

	1977	1976
Revenue		
Gross operating revenues	$7,804,000	$5,321,000
Less royalties	1,820,000	1,122,000
	5,984,000	4,199,000
Investment income	403,000	384,000
Building revenue and miscellaneous income ..	75,000	79,000
	6,462,000	4,662,000
Expenses		
Cost of gas purchased .	642,000	256,000
Operating	796,000	659,000
Administration and general	143,000	125,000
Interest	80,000	119,000
	1,661,000	1,159,000
	4,801,000	3,503,000
Depreciation, depletion and amortization	550,000	396,000
Income before income taxes	4,251,000	3,107,000
Provision for income taxes		
Current	762,000	678,000
Deferred	510,000	264,000
Net income before extraordinary items ...	2,979,000	2,165,000
Extraordinary items (after provision for income taxes)	—	530,000
Net income for period ...	$2,979,000	$2,695,000
Earnings per common share		
Income before extraordinary items ..	$ .52	$ .38
Net income	$ .52	$ .47

The above financial information is unaudited.

THE YEAR AT A GLANCE

Financial

	1977	1976
Gross Revenue (before royalty)	$18,344,000	$12,493,000
Cash Flow	8,210,000	6,065,000
Net Income before extraordinary items	5,934,000	4,675,000
Per Share (after provision for preferred share dividend)	1.04	0.81
Net Income after extraordinary items	6,623,000	5,401,000
Per Share (after provision for preferred share dividend)	1.16	0.94
Exploration Expenditures	4,300,000	1,417,000
Development Expenditures	2,700,000	2,780,000
Investment in affiliate	24,992,000	–
Shareholders' Equity	36,321,000	29,816,000

Operating

	1977	1976
Natural Gas Production — billion cubic feet	19.3	17.3
Average per day — million cubic feet	52.8	47.4
Pipeline — Annual throughput, billion cubic feet	6.0	6.5
Oil Production — barrels	43,000	45,600

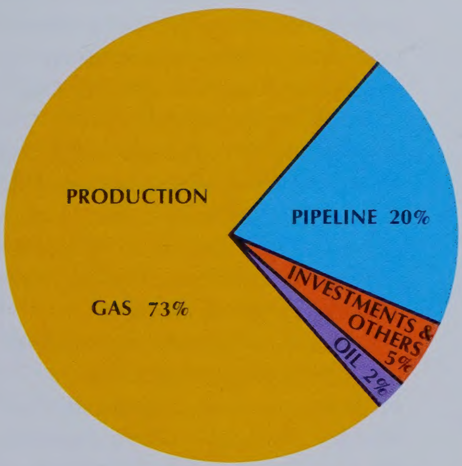
Estimated

Gross Proven Recoverable Reserves — January 1, 1978

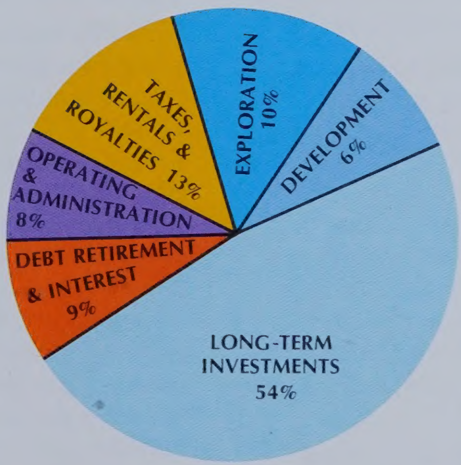
GAS	675 Billion cubic feet
OIL	358 Thousand barrels

Undeveloped Acreage

Area	Gross	Net
Alberta	218,000	106,500
Saskatchewan	10,700	10,700
Northwest Territories	85,800	21,500
British Columbia	6,150	2,300
Texas	11,000	2,800
India	1,200,000	267,000



REVENUE



EXPENDITURES

TO THE SHAREHOLDERS:

On behalf of the Board of Directors I am pleased to submit North Canadian Oils' thirty-first annual report. Highlighted by record production, revenue and earnings, an active exploration and development program and a major corporate investment, 1977 was an eventful and successful year.

Due primarily to higher gas prices and increased sales volumes, corporate revenue was up approximately 47%. Cash flow from operations rose from $6,065,000 or $1.07 a share to $8,210,000 or $1.45 a share. Net income for the year, excluding an extraordinary gain of $689,000, was $1.04 per share compared to an equivalent figure of 81¢ a share in 1976.

Natural gas sales, which contributed 73% of the Company's total revenue for the year, averaged, 52.8 million cubic feet a day. Total production for the year was up by 2.0 billion cubic feet. Oil production, which accounts for less than 3% of revenue, showed a small decline but this was more than offset by higher prices.

In an unprecedented level of activity for North Canadian, the Company drilled or participated in 87 wells in 1977. Of these, 56 were wholly owned development wells, all successfully completed and placed on production. Of 31 exploratory wells, in which the Company held varying interests ranging from 2½% to 50%, 18 were completed as gas or potential gas discoveries and 13, including the unsuccessful venture in India's Gulf of Mannar, were abandoned.

The lack of a market for newly discovered gas in Alberta is a matter of continuing concern and there does not appear to be any immediate relief in sight. The Canadian government has indicated that it will not approve the export of additional gas to the United States except in the case of accelerated deliveries under existing contracts or under some form of "swap" arrangement whereby surplus gas delivered now would be replaced (presumably by Alaskan gas) at a later date. Under either of these schemes, however, the implementation of additional gas deliveries in sufficient magnitude to provide the needed relief requires new pipeline facilities, the construction of which is thought unlikely pending the final approval and financing of the proposed Foothills gas

pipeline. This could be a matter of several years.

Although the so called "gas bubble" has had little adverse effect on the Company's existing gas sales contracts, the prospect of new gas being shut in for a possible four to five years was an important consideration in the planning of this year's exploration program. For the first time a significant portion of the Company's budget has been earmarked for exploration outside of Alberta, principally in British Columbia and the United States.

In a move to broaden its earnings base, North Canadian, in August, purchased 3,500,000 common shares or 49% of the outstanding shares of Hambro Canada Limited, a Toronto based holding company. In addition, North Canadian has an undertaking with the vendor, Hambros Limited, of England, that an offer of approximately $7.00 in cash or securities of equivalent value will be made to the remaining Hambro shareholders within one year of the date of purchase.

Hambro Canada owns, among other assets, approximately 58% of Foodex Systems Limited, a highly successful Canadian fast food operation and 100% of Peel-Elder Developments Limited, a Toronto real estate firm with properties in Ontario and Manitoba. Through Foodex, Hambro controls Gibraltar Pari-Mutuel, Inc., an American company which holds a majority interest in Bowie Race Course in Maryland and a 100% interest in Freehold Raceway, a New Jersey harness track.

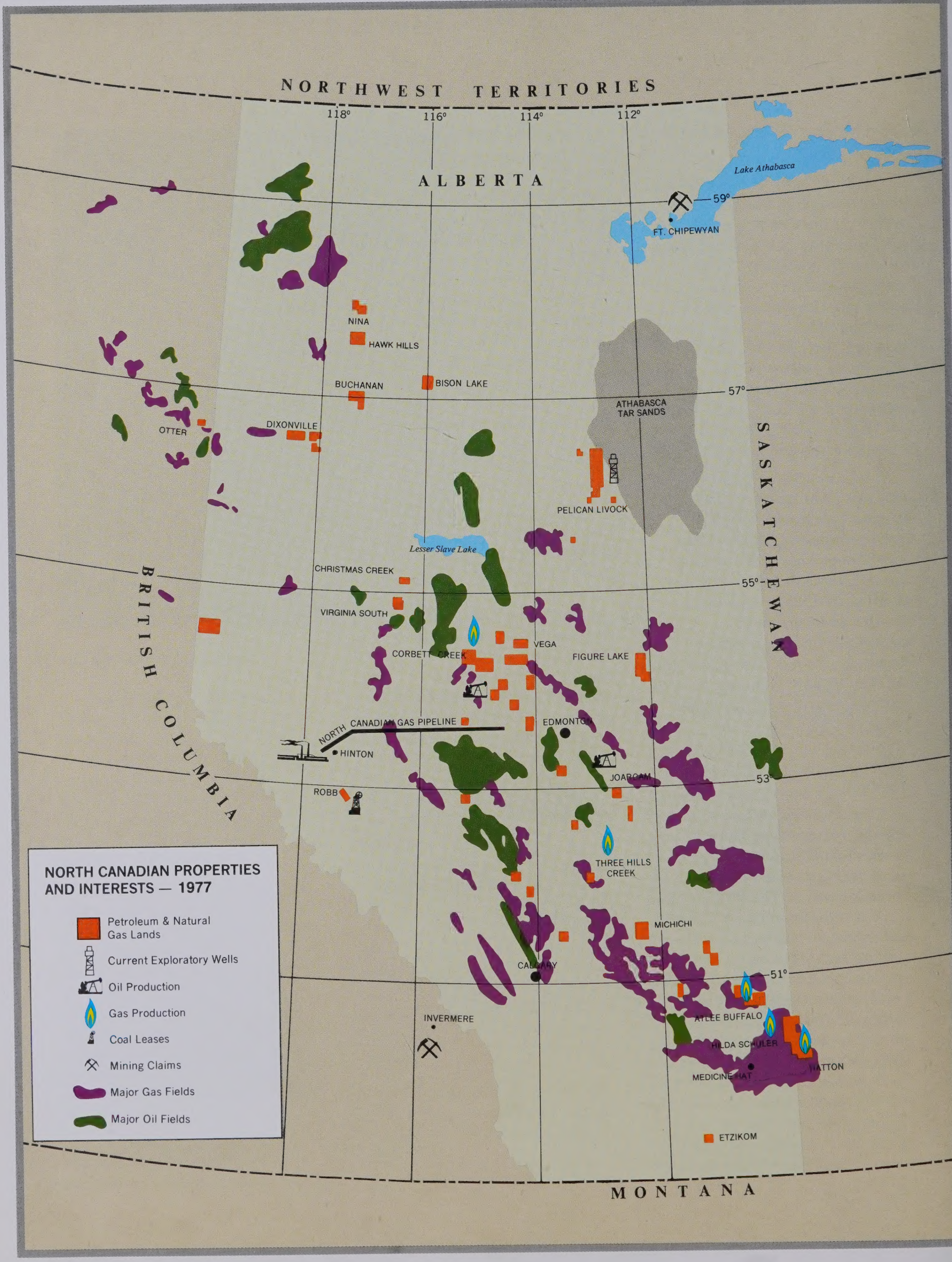
The year 1978 is expected to be a good year financially for North Canadian with continued improvements in revenue and earnings. Expansion of exploration activity to the United States will provide a new area of interest as will the further evolvement of the Company's position relative to Hambro Canada and its various subsidiaries. While entirely apart from its principal business of exploration and development, the Hambro investment provides North Canadian with a new dimension which should materially enhance the Company's potential for future growth.

In conclusion, we wish to thank our employees for the material contribution they have made to the Company's success of the past year. A word of special recognition is due the field personnel who, in the face of extremely severe winter conditions, have done an outstanding job in maintaining production from the 480 wells the Company operates in Alberta and Saskatchewan.

Robert F. Ruben

ROBERT F. RUBEN
President and Chief Executive Officer

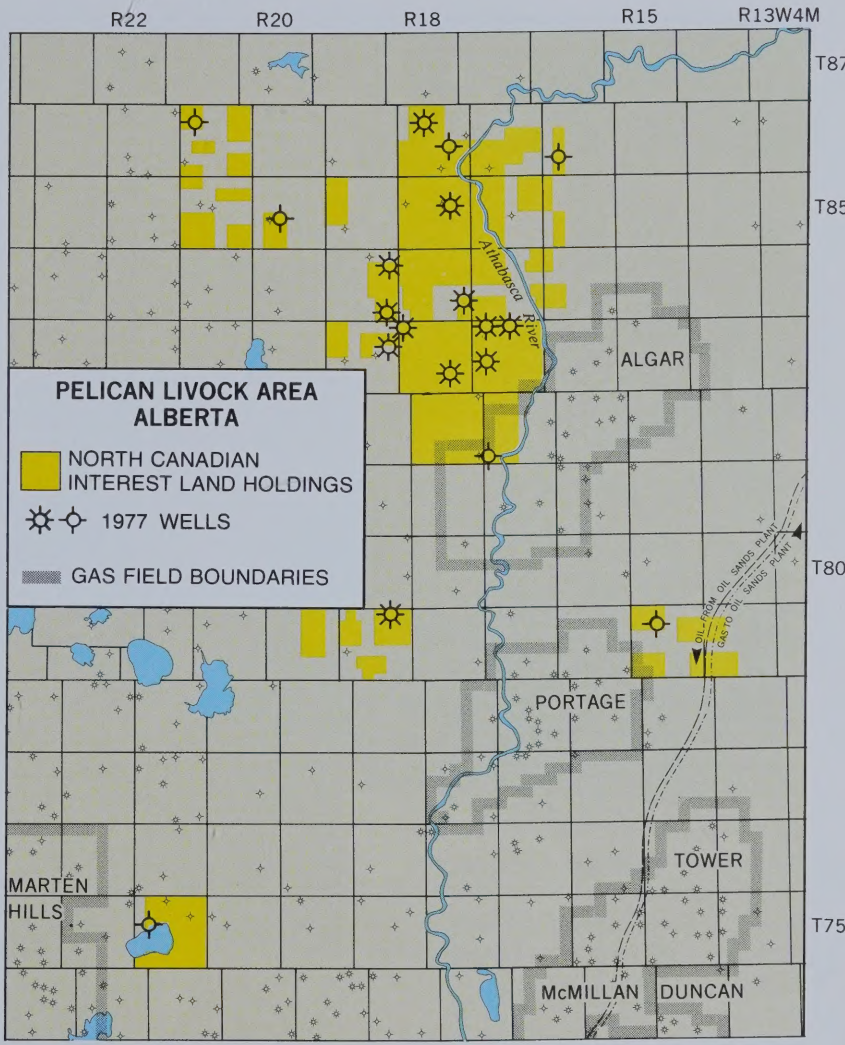
March 20, 1978


NORTHWEST TERRITORIES
118°
116°
114°
112°
ALBERTA
Lake Athabasca
59°
FT. CHIPEWYAN
NINA
HAWK HILLS
BUCHANAN
BISON LAKE
57°
ATHABASCA
TAR SANDS
OTTER
DIXONVILLE
SASKATCHEWAN
PELICAN LIVOCK
Lesser Slave Lake
CHRISTMAS CREEK
55°
VIRGINIA SOUTH
BRITISH COLUMBIA
CORBETT CREEK
VEGA
FIGURE LAKE
NORTH CANADIAN GAS PIPELINE
EDMONTON
HINTON
JOARCAM
53°
ROBB
THREE HILLS
CREEK
MICHICHI
CALGARY
51°
INVERMERE
ATLEE BUFFALO
HILDA SCHULER
HATTON
MEDICINE HAT
ETZIKOM
MONTANA
NORTH CANADIAN PROPERTIES
AND INTERESTS — 1977
Petroleum & Natural
Gas Lands
Current Exploratory Wells
Oil Production
Gas Production
Coal Leases
Mining Claims
Major Gas Fields
Major Oil Fields

EXPLORATION

D.F. CHRISTENSEN
Vice President, Exploration

In the most active exploration program in the Company's history, North Canadian drilled or participated in 32 exploratory wells in 1977. Results of the program were 17 gas discoveries in Alberta and 1 gas discovery in British Columbia. Thirteen wells, including the Mannar 1-1A drilled off the south east coast of India, were unsuccessful and abandoned.



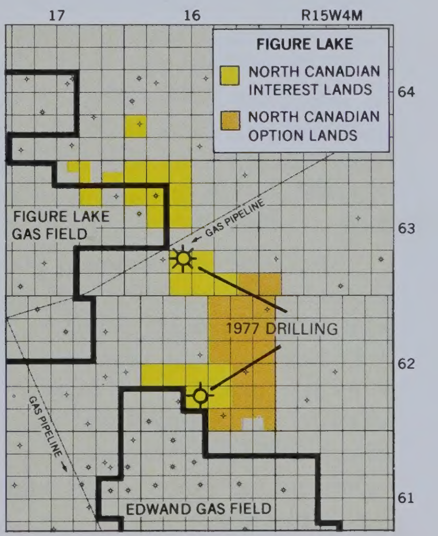
CANADA

Figure Lake:

In the Figure Lake-Edwand area of east central Alberta, where the Company has been active for several years, a Lower Cretaceous gas discovery was drilled following abandonment of an earlier well six miles distant. Though yet to be delineated, the producing zone which flowed gas at a rate of 1.5 million cubic feet a day appears to be broad in areal extent and could cover a significant part of the Company's surrounding land. In all, North Canadian has an interest in 23,840 acres in this area.

Pelican-Livock:

From the standpoint of total number of wells drilled, Pelican-Livock in northeastern Alberta was the most active area for the Company in 1977. Of nineteen wells drilled, twelve were reported by the operator as gas or potential gas discoveries and seven were abandoned. While North Canadian's participating interest, averaging about 10% is relatively small, the large acreage involved and the high success ratio experienced to date makes this a most interesting prospect. By the end of the current winter drilling season the exploration group will have earned an interest in the area covering approximately 230,000 acres.



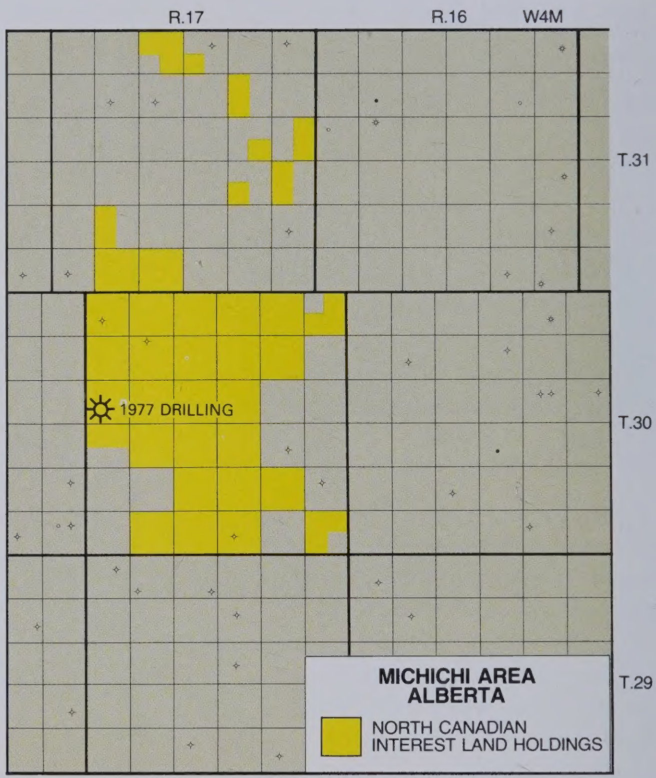
Michichi:

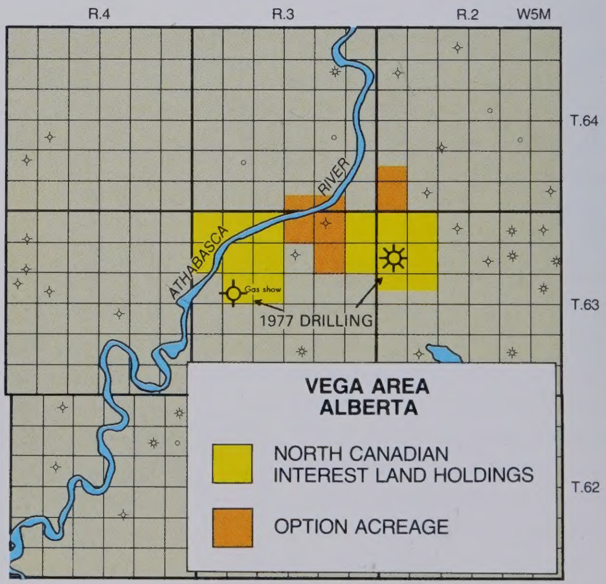
Closer to Calgary, the Company drilled a Cretaceous sand gas discovery in the Michichi area near the city of Drumheller. Following completion and testing of the well, which gave a stabilized gas flow of half a million cubic feet a day, North Canadian purchased for its own account twelve sections of crown lands adjoining the discovery block. An option well drilled in 1978, three and a half miles from the discovery was abandoned. The Company holds approximately 14,500 net acres in the area.

Vega:

In the Vega area of central Alberta, the Company drilled a Viking sand gas discovery which tested 1.5 million cubic feet a day. Following the drilling of an option well to earn additional lands, North Canadian will hold a 37.5% in 8,000 acres in the vicinity of the discovery well.

In a separate Viking gas play, located approximately five miles west of the discovery, a test drilled earlier in the year on a 5,100 acre block of land owned 100% by the Company was abandoned but did encounter a significant gas show. A follow-up well is planned.





Buick Creek:

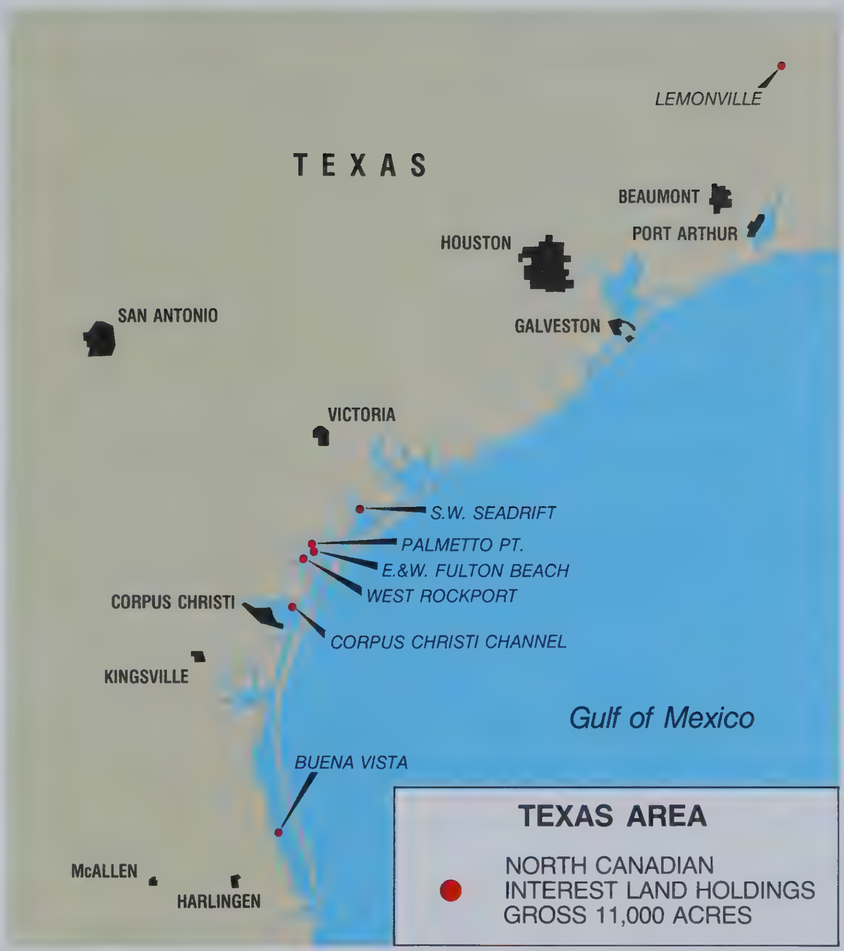
Late in December, North Canadian joined in the drilling of a successful exploratory test in the Buick Creek area of northeastern British Columbia. Flow testing of the well, which stabilized at 2 million cubic feet a day, was completed in March of this year, and it is expected to be on production by early fall. The Company has a net 21.25% interest in the 1,030 acre block on which the well was drilled and in a 3,379 acre block purchased by the drilling group following the discovery. Further drilling in the area is scheduled for 1978.

FOREIGN

The purchase, in late 1977, of a 25% interest in 11,000 acres of land in the shallow bay waters of the Gulf Coast area of Texas marked North Canadian's entry into exploration in the United States. In an area identified with thick Tertiary sand and shale sequences at depths of 7,000 to 12,000 feet, the purchased lands are believed to contain no less than eight drillable prospects.

In a second area of interest in the United States, the Company has recently taken a 33⅓% participation in a 13,000 foot test to be drilled in Fremont County, Wyoming.

In India, an assessment and correlation of the geochemical and stratigraphic information, from the abandoned Mannar 1-1A well with the previously obtained geophysical data, is now being conducted. As provided for in the exploration agreement, the initial prospective area has been reduced to two 2,500 square kilometre blocks selected by the Company and its partners. North Canadian has maintained its original 21.67% interest in the area.



OTHER ACTIVITIES

The recent announcement of a joint study to be made by the governments of Canada and the United States, of potential sites for the strategic storage of crude oil on the east coast of North America, has focused attention on the salt cavern storage project on Cape Breton Island, Nova Scotia, in which the Company holds a 25% interest. Ideally situated adjacent to the deep water, ice free port facilities of the Strait of Canso, the project is believed to stand an excellent chance of receiving favorable consideration if a decision is made to store United States oil reserves in Canada. In response to the expressed interest of the U.S. Strategic Petroleum Reserve Office, tentative plans have been made for the drilling of two additional core holes on the 36,000 acre permit area in 1978.

DEVELOPMENT

The 1977 development program, which involved a capital expenditure of approximately $2.7 million, was divided almost equally between Saskatchewan and Alberta with 30 wells in Hatton (Saskatchewan) and 26 wells plus a new compressor station in Hilda-Schuler (Alberta).

The Hatton program was carried out primarily to maintain production as there had not been any development wells drilled there for two years. There is an added benefit, however, in that gas from the new wells demands a higher price under the recently established "new gas" category in Saskatchewan.

The Hilda-Schuler program was patterned after the successful program carried out in 1976 in Altee-Buffalo which saw the well spacing units reduced from 640 to 320 acres. Since December 1, when the new wells were placed on production, average daily production from Hilda-Schuler has increased by over 60%.

North Canadian presently owns and operates 480 gas wells in the provinces of Alberta and Saskatchewan. Predicated on full development of both the Medicine Hat and Milk River Sands underlying the Company's acreage in Alberta and Saskatchewan, more than 600 proven locations remain to be drilled.

As of December 31, 1977, North Canadian Oils' estimated proven gross recoverable reserves were 675 billion cubic feet of gas and 357,500 barrels of oil. These figures do not include an estimate of possible reserves attributable to new gas discoveries.

PIPELINE

Net operating income of the Wabamun-Hinton gas pipeline for the year was $1,093,000, a drop of approximately $280,000. The reduction in revenue is directly due to a material change in the Company's gas supply contract with North Western Pulp & Power Ltd., the line's largest customer. Scheduled to expire in 1983, the contract was revised in April of 1977, and extended to 1998. Under the new terms of the gas sales agreement, North Canadian was relieved of the fixed price commitment contained in the original contract and is now fully sheltered against future gas price escalations.

In addition to sales to North Western Pulp & Power and other industrial customers, gas is sold to Gas Alberta, a provincial government agency responsible for the requirements of the smaller rural consumers along the line's route. Besides income from the sale of gas, a substantial portion of the pipeline's revenue is derived from tariffs for transporting gas belonging to other companies.

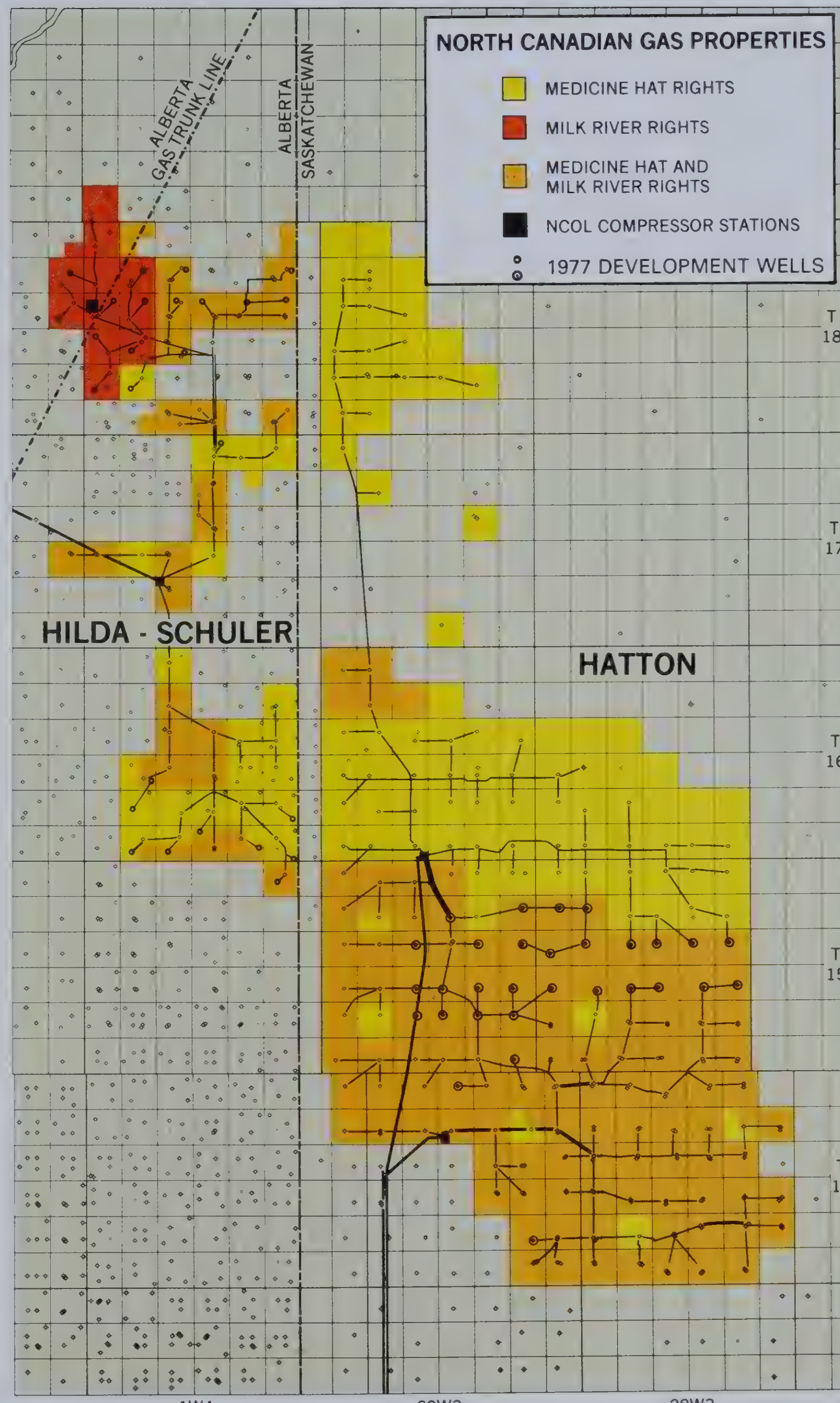
All of the gas purchased for resale from the 136 mile pipeline is now bought from Alberta and Southern Gas Co. Ltd. under a long term contract which ensures an available supply of gas of up to 30 million cubic feet a day. The average daily throughput for the line in 1977 was 17.5 million cubic feet.

PRODUCTION

NATHAN GOODMAN
Vice-President, Production

Total gas production in 1977 showed an increase of approximately 11.5% or 2.0 billion cubic feet. Most of the improvement was due to the success of the 1976 development program at Atlee-Buffalo (Alberta). Gas deliveries from Dixonville also showed an increase as a result of the correction by Alberta Gas Trunk Line of operational problems which, for sometime, had restricted the capacity of the pipeline system which served the Dixonville area. While it is expected that the additional wells in Hilda-Schuler will result in a marked improvement in production from that area, no significant change is anticipated in the Company's total gas production in 1978, due in part to contract cut backs in the Corbett Creek and Three Hills Creek areas.

Oil production, which accounts for 2.5% of the Company's revenue, averaged 115 barrels a day, as compared to 124 barrels a day in 1976. From the standpoint of revenue, however, the decline was more than offset by an increase of $1.79 in the average price per barrel received over the year. Following a price increase effective January 1, 1978, the current price of oil is $11.95 a barrel.



The combined weighted average price received by the Company for natural gas in Alberta and Saskatchewan in 1977 was up 35%. A price increase in Alberta of approximately 17¢ per Mcf, effective February 1, 1978, coupled with a further increase expected in July, will be reflected in higher gas revenues for 1978.

HAMBRO CANADA LIMITED

On August 31, North Canadian purchased 3,500,000 shares (49.3%) of the 7,103,867 outstanding common shares of Hambro Canada Limited for a price of approximately $25 million. As a condition of the purchase agreement with Hambros Limited, the United Kingdom corporation from whom it bought most of the shares, the Company presently has an undertaking (see Note 10 to the Financial Statements) to make an offer to the remaining Hambro common shareholders, prior to August 31, 1978, for the purchase of their shares at no less than approximately $7.00 in cash or securities of comparable value.

Hambro Canada's principal interests are its 100% ownership of Peel-Elder Developments Limited, a Toronto based real estate corporation and an approximately 58% ownership of the common shares of Foodex Systems Limited, a company primarily engaged in the restaurant business in Canada and which, through a controlled American subsidiary, operates two race tracks in the United States. Hambro's consolidated net income for 1977, including $4.4 million from extraordinary items was $8.1 million.

Peel-Elder Developments Limited

Peel-Elder is engaged primarily in the leasing and management of shopping centers, administration of its substantial mortgage portfolio and in the sale and liquidation of its remaining properties. It owns and operates three modern enclosed mall shopping centers having an aggregate net rentable area of over one million square feet. The three centers, all located in or near Toronto, contain approximately 275 stores and each includes a major department store, a leading food supermarket and a representative cross section of Canada's leading retailers.

Peel-Elder's mortgage portfolio is substantially comprised of first mortgages maturing over the next five years and secured on real estate sold by Peel-Elder in the general Toronto area. Peel-Elder also owns commercial, industrial, residential and other lands in various stages of development in or near Toronto, Ontario and Winnipeg, Manitoba.

Foodex Systems Limited

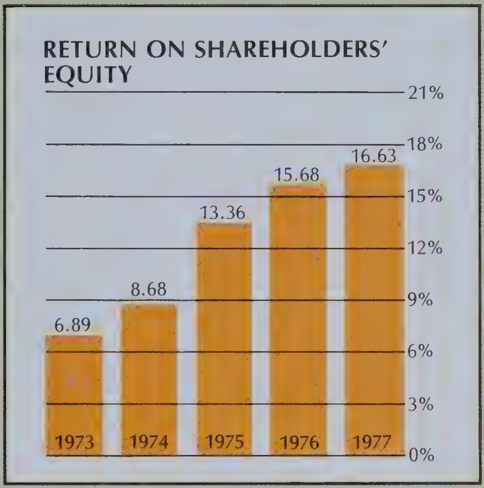
The principal division of Foodex operates ninety four "Ponderosa Steak Houses" in Canada which it owns or holds under long term leases. Exclusive use of the Ponderosa name in Canada is by agreement in perpetuity with Ponderosa Systems Inc., a U.S. company. These family style restaurants, which feature a moderately priced menu of beef and seafood entrees, are located in eight of Canada's ten provinces. Four new Ponderosa units are currently under construction.

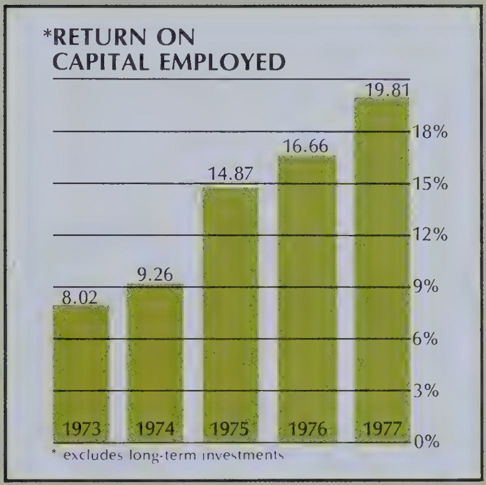
To service its Ponderosa Steak Houses, Foodex owns and operates a 19,500 square foot meat processing plant near Toronto. The plant is a modern automated facility presently producing approximately 33,000 pounds of meat per day with storage capacity for 1.5 million pounds of product. Plans have been approved for expansion of the plant, which also provides a limited custom meat processing service for retail outlets.

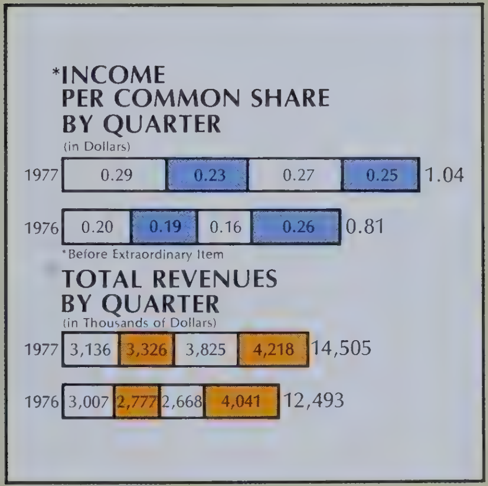
In addition to the Ponderosa chain, Foodex also owns and operates seven Frank Vetere's Pizzeria and Taverns. Featuring a unique deep pan pizza, spaghetti, Italian style sandwiches, self serve salad bars and offering wine and beer, the Frank Vetere concept has enjoyed an excellent reception since its introduction in the Toronto area. An additional four Vetere units are under construction.

In addition to its restaurant operations, Foodex owns approximately 63% of Gibraltar Pari-Mutuel, Inc., a New Jersey corporation which owns and operates, through a 70% owned subsidiary, Bowie Race Course, a thoroughbred track located midway between Washington, D.C. and Baltimore, Maryland, and, through a wholly owned subsidiary Freehold Raceway, a harness track in Freehold, New Jersey, about 60 miles out of New York City. Gibraltar also owns 150 acres of undeveloped land in Prince Georges County, Maryland and 189 acres adjacent to Freehold Raceway.

FINANCIAL SUMMARY







FIVE YEAR SUMMARY OF OPERATIONS

Financial (in thousands) except income per share

	1977	1976	1975	1974	1973
Revenue					
Gas and oil revenue	$13,783	$ 9,356	$ 6,828	$ 4,099	$ 3,191
Less royalties	3,839	2,491	1,615	606	407
	9,944	6,865	5,213	3,493	2,784
Pipeline operations	3,712	2,112	2,171	2,017	1,881
Investment income	754	820	900	902	918
Building rental and miscellaneous	95	205	131	138	149
	14,505	10,002	8,415	6,550	5,732
Expenses					
Operating and administrative	2,012	1,687	1,442	1,386	1,234
Gas purchased for resale	2,392	509	842	698	647
Interest	547	216	371	421	430
Income tax — current	1,344	1,525	1,319	971	183
	6,295	3,937	3,974	3,476	2,494
Cash Flow	8,210	6,065	4,441	3,074	3,238
Per common share	1.45	1.07	.79	.55	.58
Depreciation, depletion and amortization	1,341	689	701	812	884
Equity in operating income of affiliate	106	—	—	—	—
Income before undernoted	6,975	5,376	3,740	2,262	2,354
Income tax — deferred	1,041	701	463	402	915
Net income before undernoted	5,934	4,675	3,277	1,860	1,439
Per common share	1.04	0.81	0.56	0.31	0.24
Non-recurring loss	—	—	—	(1,174)	—
Extraordinary items	689	726	—	—	—
Net income	6,623	5,401	3,277	1,686	1,439
Per common share	1.16	0.94	0.56	0.10	0.24
Working capital — (deficit)	(462)	4,927	581	747	328
Long-term investments	36,689	10,000	15,000	15,000	16,165
Property and equipment-net	29,689	24,146	20,751	18,848	16,027
Long-term debt	21,526	2,203	5,409	7,227	6,094
Shares outstanding					
Common-par value $.25 per share	5,649	5,643	5,629	5,629	5,627
Preferred-par value $50 per share	30	32	35	37	39
Shareholders' equity	36,321	29,816	24,520	21,428	20,891
Cost of finding and developing reserves					
Exploration	4,300	1,417	1,502	1,136	1,922
Development	2,700	2,780	1,122	2,453	968
Production and Sales					
Natural Gas Production — billion cubic feet	19.3	17.3	18.8	15.5	14.5
Average per day — million cubic feet	52.8	47.4	51.5	42.5	39.7
Pipeline —					
Annual throughput, billion cubic feet	6.0	6.5	6.0	5.0	4.9
Oil Production — barrels	43,000	45,600	52,500	132,000	226,500

COMMON STOCK PRICE RANGE

	Toronto Stock Exchange (Can.)				American Stock Exchange (U.S.)			
	1977		1976		1977		1976	
First Quarter	$ 8.62	$7.50	$6.87	$4.30	$ 8.50	$7.25	$7.00	$4.19
Second Quarter	11.37	8.00	9.50	5.87	10.75	7.50	9.75	5.62
Third Quarter	11.00	8.50	9.25	7.75	10.62	7.87	9.37	7.75
Fourth Quarter	10.50	8.25	8.00	5.87	9.50	7.25	8.12	6.00

FINANCIAL REVIEW

CHARLES K. LOUGH
Vice-President, Finance

Management's Discussion and Analysis of the Summary of Operations Comparison of 1977 to 1976

Revenue

Gas and oil revenue at $13.8 million, increased $4.4 million or 47% over 1976 as a result of a 11.5% increase in volume and 34.7% improvement in the weighted average price received for natural gas sold in Alberta and Saskatchewan.

Revenue from the Wabamun-Hinton pipeline, reflecting the higher price of gas, was $3.7 million compared to $2.1 million the previous year. This increase, however, was offset by the higher cost of gas purchased for resale to the line's customers. Net income from the pipeline was down $280,000, primarily due to the revision of the gas sales contract with North Western Pulp & Power Ltd.

An 8% decline in investment income is attributable to a reduction of interest earned on short term deposits.

Building revenue and miscellaneous income declined by $100,000, principally due to the sale of the North Canadian Oil Building during the year and a reduction due to adverse foreign exchange rates.

Royalties

Royalties which are based on a percentage of gas and oil revenue increased from $2.5 million to $3.8 million as a function of higher gas prices.

Expenses

An increase in the number of company operated wells combined with general inflation created higher labor, transportation, material and general costs. As a percentage of gas and oil revenue, however, operating cost decreased by approximately 3.0%. Operating costs for the pipeline were up marginally.

Increased corporate activities were reflected in higher salaries, audit, legal and general expenses. Although administrative expenses were up substantially, these costs as a percentage of gross revenue remained relatively constant.

The higher interest expense is directly related to the increase in long term bank borrowing required to finance the investment in Hambro Canada Limited.

Non cash charges for depreciation and depletion rose from $689,000 to $886,000. The increase is attributable to higher production and a higher level of investment in exploration and development. The amortization provision of $455,000 is related to foreign exploration and is more fully explained in the Notes to the Financial Statements.

In 1977, the Company generated funds in the amount of $8.2 million or $1.45 per share. These funds are available for dividends on preferred shares, debt retirement, exploration, development and other investments. The comparative figures were $6.0 million and $1.07 in 1976.

Income before extraordinary items in 1977 was $5,934,000 or $1.04 per common share compared to $4.675,000 or 81¢ in 1976, a gain of approximately 27%. Extraordinary items increased the net income from all sources to $6,623,000 or $1.16 per share from the equivalent figure for 1976 of $5,401,000 or 94¢ per share.

Investments, Long Term Debt and Working Capital

Exploration investment of $4.3 million and development investment of $2.7 million exceeded the corresponding figure of $1.4 million and $2.8 million respectively, incurred in 1976 and reflect the Company's higher level of activity.

In addition, the Company invested approximately $25 million to acquire a 49.3% equity position in Hambro Canada Limited which is discussed elsewhere in this report. To finance this investment the Company arranged to borrow approximately $23 million, of which $11.8 million had been drawn down at the year end. The balance of this line of credit is available to apply against the deferred purchase payment of approximately $8 million due in August 1978, and for general corporate purposes if required. As security, the lender is holding 3,300,000 common shares of Hambro Canada and 318,778 shares of St. Regis Paper Company belonging to North Canadian.

As at December 31, 1977, working capital showed a deficit of $462,000 as compared to a surplus of $4.9 million at December 31, 1976. This rather dramatic change is attributable to (a) the reclassification of a current asset of $1.7 million to a long term investment and (b) the use of working capital to purchase a portion of the shares of Hambro Canada. The existence of deficit in working capital is not considered by management to be a matter of serious concern in view of the Company's strong cash flow, unpledged assets and unused bank credit.

Shareholder's Equity

At December 31, 1977, the book value per common share was $6.16 versus $5.00 at December 31, 1976. Total shareholder's equity at the year end was $36.3 million, an increase of $6.5 million or 22% from a year earlier.

Subsequent Event

On February 24, 1978, Hambro Canada made a public tender offer to North Canadian shareholders, in Canada and the United States, to purchase up to 1,200,000 shares at a price of $10.50 (U.S.).

As a result of this offer, Hambro as of March 29, 1978 holds 1,219,700 common shares of North Canadian or approximately 21.6% of the issued shares.

Accounting Change

In December 1977, the Financial Accounting Standards Board of the United States issued a statement that will require oil and gas producing companies to follow a form of the "successful efforts" method of accounting for costs incurred in exploring for and developing oil and gas reserves. The statement is effective for financial statements for fiscal years beginning after December 15, 1978, and will require retroactive restatement of financial statements presented for prior years.

Had the successful efforts method of accounting been retroactively adopted in 1977 the following changes to the financial statements would have resulted, as shown below.

	Reduction in Net Income		Cumulative Net Reduction at December 31		
	Amount	Per Share	Property, Plant and Equipment	Deferred Income Taxes	Retained Earnings
1977	$1,527,000	27¢	$8,762,000	$2,949,000	$5,813,000
1976	789,000	14¢	6,394,000	2,108,000	4,286,000

QUARTERLY FINANCIAL INFORMATION

(Unaudited)

1977	Three Months ended 1977 March 31	June 30	Sept. 30	Dec. 31
Total Revenue (after royalties)	$3,136,000	3,326,000	3,825,000	4,218,000
Income before income taxes and extraordinary items	$2,269,000	1,982,000	2,170,000	1,792,000
Income before extraordinary items	$1,633,000	1,346,000	1,534,000	1,421,000
Net income	$1,633,000	1,346,000	1,534,000	2,110,000
Income per common share				
Income before extraordinary items	$ 29	.23	.27	25
Net income	$ 29	.23	27	37

1976	March 31	June 30	Sept. 30	Dec. 31
Total Revenue (after royalties)	$2,385,000	2,277,000	2,123,000	3,217,000
Income before income taxes and extraordinary items	$1,582,000	1,525,000	1,386,000	2,408,000
Income before extraordinary items	$1,114,000	1,051,000	912,000	1,598,000
Net income	$1,497,000	1,198,000	912,000	1,794,000
Income per common share				
Income before extraordinary items	$ 20	19	16	26
Net income	$ 27	21	16	30

Income per common share is after preferred share dividends

Comparison of 1976 to 1975:

At December 31, 1977, the book value per common share was $6.16 versus $5.00 at December 31, 1976. Total shareholders' equity at the year end was $36.3 million, an increase of $6.5 million or 22% from a year earlier.

Gross revenue, excluding the gain on securities, at $12.5 million, increased $2.5 million or 25% over 1975. Oil and gas revenue was up 37%, primarily as a result of a 51% increase in the weighted average wellhead price of gas. Pipeline revenue, after deducting the cost of gas, up 21%. Investment income, including the gain on sale of securities, increased 72% and building revenue and miscellaneous income gained 56%.

Based on higher gas and oil prices, royalties payable to government and others were $2.5 million versus $1.6 million. As a percentage of gross oil and gas revenue, royalties were 27% and 24% respectively in 1976 and 1975.

General administration and operating costs, excluding the cost of gas purchased for resale through the Wabamun-Hinton pipeline, increased to $1.5 million from $1.4 million. Although reflecting a 13% increase over 1975, operating and administrative costs, in relation to net operating revenue, decreased by 2.7%.

The reduction in interest expense from $371,000 to $216,000 or 42%, results from the retirement of the bank loan during the first quarter of the year and a reduction in other long term debt.

An increase of $50,000 in the depletion provision was offset by a reduction in the pipeline depreciation provision.

Total funds from operations available for the payment of taxes, debt retirement, preferred share dividends and exploration and development expenditure were $7.5 million or $1.35 per share, compared to $5.8 million or $1.02 per share in 1975.

Net income of $4,675,000 or 81¢ per common share is up 43% from the $3,277,000 recorded in 1975. In addition, the Company had a gain on the sale of securities of $726,000. Net income from all sources reached a new high at $5,401,000, an increase of 65% over the $3,277,000 earned in 1975.

The increase of $4.3 million in working capital is directly attributable to the decision, by management, to convert $15 million of 6% St. Regis Paper Company convertible notes into 409,496 common shares. During the year the Company sold 90,718 shares for $4.1 million, realizing a gain on the sale of $726,000. Of the proceeds, $2.7 million was applied to the bank loan and the balance used for general corporate purposes. At December 31, 1976, the Company held 318,778 common shares of St. Regis Paper Company.

Expenditures for exploration and development in 1976, amounted to $1.4 million and $2.8 million respectively, as compared to the corresponding amounts of $1.5 million and $1.1 million expended in 1975.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of North Canadian Oils Limited as at December 31, 1977 and 1976, and the statements of income, retained earnings and changes in financial position for the years then ended. Our examination of the financial statements of North Canadian Oils Limited was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of other auditors who have examined the consolidated financial statements of the company accounted for on the equity method.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1977 and 1976, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada,
February 18, 1978

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
Revenue:		
Gas and oil revenue	$13,783,000	$ 9,356,000
Less royalties	3,839,000	2,491,000
	9,944,000	6,865,000
Pipeline operations	3,712,000	2,112,000
Investment	754,000	820,000
Building and miscellaneous	95,000	205,000
	14,505,000	10,002,000
Expenses:		
Operating	1,620,000	1,408,000
Gas purchased for resale	2,392,000	509,000
Administrative	392,000	279,000
Interest on long-term debt	547,000	216,000
Depreciation	310,000	290,000
Depletion	576,000	399,000
Amortization of foreign exploration costs	455,000	—
	6,292,000	3,101,000
Income before the undernoted	8,213,000	6,901,000
Income taxes (Note 6)		
Current	1,344,000	1,525,000
Deferred	1,041,000	701,000
	2,385,000	2,226,000
Income before the undernoted	5,828,000	4,675,000
Equity in operating income of Hambro Canada Limited (Note 2)	106,000	—
Income before extraordinary items	5,934,000	4,675,000
Extraordinary items (Note 8)	689,000	726,000
Net income	$ 6,623,000	$ 5,401,000
Income per common share		
Income before extraordinary items	$1.04	$0.81
Net income	$1.16	$0.94

See accompanying notes to financial statements

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
Sources of funds		
Income before extraordinary items	$ 5,934,000	$ 4,675,000
Add (deduct) items not requiring an outlay of funds		
Depreciation, depletion and amortization	1,341,000	689,000
Gain on disposal of fixed assets	—	(44,000)
Deferred income taxes	1,041,000	701,000
Equity in operating income of Hambro Canada Limited	(106,000)	—
Funds provided from operations	8,210,000	6,021,000
Proceeds relating to extraordinary items	1,123,000	4,049,000
Proceeds on sale of fixed assets	—	82,000
Proceeds on issue of common shares	27,000	68,000
Increase in long-term debt	23,019,000	—
Reclassification of marketable securities	—	1,677,000
Total funds provided	32,379,000	11,897,000
Use of funds		
Expenditures for property, plant and equipment	7,232,000	4,121,000
Reduction of long-term debt	3,696,000	3,206,000
Redemption of preferred shares	60,000	84,000
Dividends on preferred shares	85,000	90,000
Additions to other assets	26,000	50,000
Investment in Hambro Canada Limited	24,992,000	—
Reclassification of marketable securities	1,677,000	—
Total funds used	37,768,000	7,551,000
Increase (decrease) in working capital	(5,389,000)	4,346,000
Working capital beginning of year	4,927,000	581,000
Working capital (deficit) end of year	$ (462,000)	$ 4,927,000

STATEMENT OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 1977 AND 1976

	1977	1976
Balance, beginning of year	$22,822,000	$17,645,000
Net income for the year	6,623,000	5,401,000
	29,445,000	23,046,000
Deduct		
Transfer to capital redemption reserve fund	76,000	134,000
Dividends on preferred shares	85,000	90,000
	161,000	224,000
Balance, end of year	$29,284,000	$22,822,000

See accompanying notes to financial statements.

BALANCE SHEET

DECEMBER 31, 1977 AND 1976

ASSETS

	1977	1976
Current assets		
Cash and short-term deposits	$ 565,000	$ 2,888,000
Accrued interest receivable	4,000	31,000
Accounts receivable	2,732,000	2,119,000
Marketable securities	—	1,677,000
Prepaid expenses	67,000	164,000
Total current assets	3,368,000	6,879,000
Long-term investments (Note 2)		
Investment in Hambro Canada Limited	25,012,000	—
Marketable securities	11,677,000	10,000,000
	36,689,000	10,000,000
Property, plant and equipment (Note 3)		
At cost	38,897,000	32,502,000
Accumulated depreciation, depletion and amortization	9,208,000	8,356,000
	29,689,000	24,146,000
Other assets at cost	252,000	226,000
	$69,998,000	$41,251,000

Approved on behalf of the Board:

Robert F. Rubin, Director

, Director

See accompanying notes to financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1977	1976
Current liabilities		
Accounts payable	$ 3,149,000	$ 1,186,000
Income taxes payable	179,000	279,000
Long-term debt due within one year	502,000	487,000
Total current liabilities	3,830,000	1,952,000
Long-term debt (Note 4)	21,526,000	2,203,000
Deferred income taxes (Note 6)	8,321,000	7,280,000
Shareholders' equity (Note 5)		
Capital stock		
5½% cumulative redeemable preferred shares, par value $50 each; authorized 70,000 shares; issued 30,486 shares (1976 — 32,006 shares)	1,524,000	1,600,000
Common shares, par value $0.25 each; authorized 7,500,000 shares; issued 5,648,565 shares (1976 — 5,642,640 shares)	1,412,000	1,411,000
	2,936,000	3,011,000
Capital redemption reserve fund	1,976,000	1,900,000
Contributed surplus	2,125,000	2,083,000
Retained earnings	29,284,000	22,822,000
	36,321,000	29,816,000
Commitment (Note 10)		
	$69,998,000	$41,251,000

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1977 and 1976

1. SIGNIFICANT ACCOUNTING POLICIES

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves in North America are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, oil and gas field production equipment, gathering lines, compressors and gas plants and overhead expenses related to exploration activities. All such costs are being amortized on the unit-of-production method, based on estimated proven recoverable reserves as determined by independent engineers.

Costs related to exploration in India are being amortized on a straight line basis over the term of the agreement. Should exploration be successful, the unamortized balance will be depleted on the unit-of-production method and should exploration be unsuccessful, the unamortized balance will be written off against income.

Future expenditures in areas outside North America will be allocated to other cost centres as appropriate.

The pipeline is being depreciated over the term of the existing gas contracts and other equipment is being depreciated over the estimated useful lives of the assets. Leasehold improvements are being amortized over term of the lease.

2. LONG-TERM INVESTMENTS

	Shares Owned	Carrying Value	Quoted Market Value
Hambro Canada Limited — at equity	3,500,000	$25,012,000	$19,687,000
St. Regis Paper Company — at cost	318,778	11,677,000	10,733,000
		$36,689,000	$30,420,000

During 1977 the Company purchased 3,500,000 common shares (49.3%) of Hambro Canada Limited for a cash consideration of $24,992,000. This amount includes $11,343,000 which is the excess of the cost of the investment over the net assets at date of acquisition. $4,268,000 of the excess was attributed to goodwill and is being amortized on a straight line basis over forty years. The balance is being amortized at the same rate as certain underlying real estate assets. The aggregate unamortized balance of the excess at December 31, 1977 amounts to $7,251,000.

Due to the extent of ownership, the quoted market values are not necessarily indicative of the value of the investments.

Summarized financial information of Hambro Canada Limited as at and for the year ended December 31, 1977 is as follows:

ASSETS

Investments	
Foodex Systems Limited — at equity	$21,131,000
Other, at market	1,987,000
	23,118,000
Real estate assets	71,691,000
Cash, short-term deposits, receivables and other	3,189,000
	$97,998,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Bank loans, accounts payable and accrued liabilities	$ 1,768,000
Real estate liabilities	57,071,000
Minority interest	1,316,000
Shareholders' equity	37,843,000
	$97,998,000

EARNINGS

Earnings before extraordinary items	$ 3,770,000
Extraordinary items	4,417,000
Net earnings	$ 8,187,000

St. Regis Paper Company
During 1976 the Company converted $15 million of St. Regis Paper Company convertible notes into 409,496 shares of St. Regis Paper Company common stock at a cost of $36.63 Cdn. per share. The quoted market value of the 318,778 shares held at December 31, 1976 was, approximately $12,313,000 U.S.

3. PROPERTY, PLANT AND EQUIPMENT

	1977		1976	
	Cost	Accumulated Depreciation, Depletion and Amortization	Cost	Accumulated Depreciation and Depletion
Petroleum and natural gas leases, rights, exploration and development costs and related equipment thereon	$34,177,000	5,630,000	$27,157,000	4,398,000
Pipeline, other equipment and leasehold improvements	4,720,000	3,578,000	5,345,000	3,958,000
	$38,897,000	9,208,000	$32,502,000	8,356,000

4. LONG-TERM DEBT

	1977		1976	
	Due Within One Year	Long-term Portion	Due Within One Year	Long-term Portion
6% Series A Secured Notes maturing October 1, 1979	$ 250,000	855,000	$ 250,000	1,105,000
5½% Series B Secured Notes ($1,023,000 U.S., 1976 $1,253,000 U.S.) maturing October 1, 1979	252,000	852,000	232,000	1,098,000
6% Mortgage	—	—	5,000	—
Bank loans	—	11,800,000	—	—
Other long-term debt	—	8,019,000	—	—
	$ 502,000	21,526,000	$ 487,000	2,203,000

Notes — Series A and B
The Series A and B notes are secured by a first mortgage on the Company's gas pipeline, its interest in certain gas fields and the related gas purchase and sales contracts.

Sinking fund instalments of $250,000 and $230,000 (U.S.) on Series A and B notes respectively are required on October 1, 1978 and $855,000 Series A and $793,000 (U.S.) Series B on October 1, 1979. These notes may be redeemed prior to October 1, 1978, at a premium of .5 of 1% and .44 of 1% on Series A and Series B notes respectively with no premium on redemptions thereafter.

The current portion of the Series B notes has been converted to Canadian dollars at the rate of exchange in effect at the Balance Sheet date. The long-term portion represents the Canadian dollar equivalent of U.S. dollars on the date of receipt.

Bank Loans
The bank loans bear interest from ¼% to 1% above the bank prime rate and are secured by 3,300,000 common shares of Hambro Canada Limited and 318,778 common shares of St. Regis Paper Company. Although the bank loans are subject to call on demand, the agreement does not require payment until February 1979.

Other long-term debt
In relation to the purchase of the shares of Hambro Canada Limited the Company's bank has issued an Irrevocable Letter of Credit maturing August 18, 1978 in the amount of $7,379,000 (U.S.). At maturity the bank is committed to advance funds to the Company sufficient to meet the liability under the letter of credit. The funds will bear interest at 1% above the bank prime rate under a demand loan agreement which will require payment in February, 1979. The Canadian dollar equivalent of the letter of credit amounts to $8,019,000 pursuant to a forward exchange contract entered into by the Company.

5. CAPITAL STOCK AND STOCK OPTIONS

Preferred Shares Redeemed
Under the terms of issue of its preferred shares, the Company is required to purchase for cancellation 2,000 preferred shares in each year. The shares may be redeemed at par from the holders on 30 days notice or purchased on the market.

At December 31, 1977 the requirements had been met and in addition 2,000 shares applicable to June 1, 1978 and 1,514 shares applicable to June 1, 1979 have been cancelled (1,520 were purchased and cancelled in 1977). In connection with the redemption of the preferred shares $76,000 and $134,000 were transferred to the capital redemption reserve fund for 1977 and 1976 respectively. The differences between the acquisition cost and the par value of the preferred shares redeemed, in the amounts of $16,000 and $50,000 have been credited to contributed surplus for 1977 and 1976 respectively. The preferred share indenture imposes certain restrictions on the payment of common share dividends.

Common Shares Issued	1977	1976
Shares issued under stock option plan	5,925	13,475
Consideration credited to		
Capital stock	$ 1,000	$ 4,000
Contributed surplus	26,000	65,000
	$27,000	$69,000

Stock Option Plan	1977	1976
Options exercised	5,925	13,475
Options outstanding December 31	6,400	12,325
Option price	$3.56—5.99	$3.56—5.99

The options are exercisable cumulatively in three equal instalments within a five-year period with the first instalment exercisable one year after date of granting the option. Under the provision of the plan no further options can be granted. Of the options outstanding at December 31, 1977, 1,700 expire in 1979 and 4,700 expire in 1980.

Payment for shares issued under the stock option plan was accepted by the Company in the form of cash or notes receivable. The notes, which are secured by the purchased shares, are non-interest bearing until they mature, at which time they bear interest at 8%. They become due at the earlier of the date of voluntary termination of employment of the optionee, the date of sale of the purchased shares or ten years from the subscription date. The notes receivable in the amount of $159,000 at December 31, 1977 and $182,000 at December 31, 1976 (of which $147,000 and $157,000 at December 31, 1977 and 1976 respectively are due from directors, officers and a retired officer) are carried on the balance sheet under other assets.

6. INCOME TAXES

The provisions made for income taxes in 1977 and 1976 are less than the amounts which would have been expected if it were assumed that the reported pre-tax earnings were subject to the Canadian federal statutory income tax rate for the year. The principal reasons for the differences between such "expected" income tax provisions and the amounts actually provided were as follows:

	1977		1976	
	Amount	% of Pre-Tax Earnings	Amount	% of Pre-Tax Earnings
Computed "expected" income taxes	$3,778,000	46.0	$3,160,000	46.0
Increase (decrease) in income taxes resulting from:				
Non-deductibility of royalties and other payments to the crown	1,677,000	20.4	1,079,000	15.7
Less related allowances and rebates:				
Federal	(1,390,000)	(16.9)	(831,000)	(12.1)
Provincial	(803,000)	(9.7)	(622,000)	(9.0)
	3,262,000	39.8	2,786,000	40.6
Allowance for earned depletion	(925,000)	(11.2)	(596,000)	(8.6)
Other	48,000	0.4	36,000	0.5
Actual income tax provision	$2,385,000	29.0	$2,226,000	32.5

The foregoing income tax provisions include deferred income taxes of $1,041,000 in 1977 and $701,000 in 1976 resulting from differences in the rates at which certain costs have been written off for tax purposes and for financial reporting purposes. The principal items which gave rise to such timing differences, and the amount of deferred income taxes attributable thereto, were as follows:

	1977	1976
Excess of capital cost allowance deducted for income tax purposes over depreciation recorded in the accounts	$ 217,000	$ 200,000
Excess exploration and development expenses and lease acquisition costs deducted for income tax purposes over depletion recorded in the accounts	824,000	501,000
	$1,041,000	$ 701,000

7. STATUTORY INFORMATION

Directors and senior officers (comprising a group of 16 in 1977 and 12 in 1976, including the five highest paid employees) of the Company received remuneration amounting to $230,000 in 1977 and $198,000 in 1976.

8. EXTRAORDINARY ITEMS

	1977	1976
Gain on disposal of St. Regis Paper Company common shares net of income tax of $172,000	$ —	$554,000
Gain on sale of building net of income tax of $153,000	775,000	—
Reduction of income taxes on application of capital losses brought forward	—	172,000
Equity in extraordinary item of Hambro Canada Limited	(86,000)	—
	$689,000	$726,000

9. ANTI-INFLATION ACT

Effective October 14, 1975, the Federal Government enacted a program of restraint on prices, profits, dividends and compensation. The Company does not come under the mandatory aspects of the program other than those provisions pertaining to the payment of dividends.

10. COMMITMENT

In connection with the acquisition of the common shares of Hambro Canada Limited (Hambro), the Company has an undertaking with the vendor of the shares within twelve months from August 31, 1977, (a) to make an offer to purchase from the remaining common shareholders of Hambro their shares at approximately $7.00 per share in cash or securities of comparable value, or (b) to complete one or more transactions, including without limitations share exchanges, amalgamations and mergers having the same ultimate result. At December 31, 1977, there were 3,603,867 common shares of Hambro not owned by the Company. This undertaking may be waived by the vendor if performance of the undertaking would represent no advantage to the remaining shareholders.

DIRECTORS

J. TREVOR EYTON, Q.C.
Partner, Tory, Tory, DesLauriers & Binnington
Toronto, Ontario

*MARSHALL A. JACOBS
Senior Partner, Jacobs Persinger & Parker
New York, New York

J. BUCKLEY JONES
Retired
Calgary, Alberta

*JAMES F. KAY
Chairman of the Board of Dylex Limited
Toronto, Ontario

CHARLES K. LOUGH
Vice-President — Finance, and Secretary of the Company
Calgary, Alberta

ROSS A. MacKIMMIE, Q.C.
Senior Partner, MacKimmie Matthews
Calgary, Alberta

FREDERIC Y. McCUTCHEON
President of Arachne Management Limited
Markham, Ontario

HAROLD P. MILAVSKY
President and Chief Executive Officer of Trizec Corporation
Calgary, Alberta

*ROBERT F. RUBEN
President and Chief Executive Officer of the Company
Calgary, Alberta

*Member of the Executive Committee

FORM 10K

North Canadian Oils Limited will furnish upon written request, to any registered shareholder without charge, a copy of its most recent Annual Report — Form 10K, as filed with the United States Securities and Exchange Commission.

OFFICERS

ROBERT F. RUBEN
President and Chief Executive Officer

D. F. CHRISTENSEN
Vice-President — Exploration

NATHAN GOODMAN
Vice-President, Production

CHARLES K. LOUGH
Vice-President, Finance, and Secretary

KEY PERSONNEL

W. K. MILLER
Manager, Gas Transmission

B. M. WYLIE
Land Manager

B. L. COOK
Supervisor, Land Administration

D. E. MACDOUGALL
Chief Geologist

B. A. KURUCZ
Chief Accountant

CAPITAL
7,500,000 Common Shares having a Par Value of Twenty-five Cents per Share

Issued 5,648,565

70,000 Preferred Shares having a Par Value of $50.000 per Share

Issued 30,486

COMMON SHARE REGISTRARS AND TRANSFER AGENTS
GUARANTY TRUST COMPANY OF CANADA,
Calgary and Toronto

The BANK of NOVA SCOTIA TRUST COMPANY of NEW YORK,
New York City, U.S.A.

PREFERRED SHARE REGISTRAR AND TRANSFER AGENT
GUARANTY TRUST COMPANY OF CANADA,
Calgary and Toronto

COMMON SHARES LISTED
TORONTO STOCK EXCHANGE (NCOT)
AMERICAN STOCK EXCHANGE (NCD)

PREFERRED SHARES LISTED
TORONTO STOCK EXCHANGE

AUDITORS
PEAT, MARWICK, MITCHELL & CO., Calgary, Alberta

BANK AFFILIATIONS
The BANK of MONTREAL

The MERCANTILE BANK of CANADA

HEAD OFFICE
Tenth Floor, Bradie Building
630 Sixth Avenue Southwest, Calgary, Alberta T2P 0S8

NORTH CANADIAN OILS LIMITED

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